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TAGS: [ECON](#) [PGOV](#) [IZ](#)
SUBJECT: IRAQ'S PROVINCIAL BUDGET EXECUTION: FORWARD
MOMENTUM SLOWING

¶1. (U) SUMMARY: Provincial budget execution in 2007 remains one of Iraq's major accomplishments in good governance. At 60 percent, current commitment rates for 2007 remain impressive. USG programs in training and capacity building, administered nationally and through PRTs, have played an important role in improving the technical capabilities of provincial governments to carry out capital budget implementation.

¶2. (U) Disbursement rates for 2007 are low, however. In addition to the fact that the budget was not passed until late February and most provinces did not open their capital accounts until late April or early May, security, contractor capacity, and poor integration of the provincial budget help explain slow disbursements. A major factor that many ePRTs identify though is the failure of the GOI to devolve budget authority beyond the provincial governor. Continued spending in local public infrastructure remains critical to Iraq's development. Devolving spending authority to municipalities, districts, and other sub-provincial authorities who can make spending decisions can contribute to more effective budget execution, and as a result, a quicker and more equitably targeted impact on Iraq's development. Key to any further devolution of capital spending authority is a complementary authority for operations and maintenance (O and M) spending. Devolving capital spending authority without putting in place a mechanism for O and M for capital assets will not improve the ability of government, national or local, to deliver essential services. END SUMMARY.

Background

¶3. (U) When provinces were first 'granted' capital/reconstruction funds, GOI expectations were that these funds would be used for small projects to be executed in the same fiscal year during which they were allocated, with larger multi-year projects to be carried out by national ministries operating in the provinces. Provinces were allowed to make commitments, and if unable to execute small capital projects within the fiscal year, funds were theoretically to revert to the Treasury.

¶4. (U) In the two years that provinces have been allocated budgets for capital spending, provincial governments have demonstrated a capability to undertake increasingly complex, multi-year projects, in some cases co-funded with line ministries. Given the lack of a standard and well-defined fiscal classification system that includes a published system of reporting on programs, expenditures, receipts, and outlays, tracking these expenditures is difficult for the Iraqis as well as the USG. (Note: Our reporting uses the term "commitment" for capital projects to reflect Iraqi use of the same term which requires disbursements of all funds in the same fiscal year during which they were appropriated.

Disbursements against these commitments are a challenge to report as Iraqi reporting often includes some non-capital costs. We continue to try and improve the accuracy of our reporting. End Note.)

Iraqi Budget Execution Accomplishments with USG Assistance

¶15. (U) USAID is implementing a Local Governance Program (at a cost, to date, of 170 million USD) which has a presence in a majority of provinces, trains provincial officials on budget execution, works at the national level to improve the communication of budget instructions to the provinces, and works with governors and provincial councils to integrate their strategic planning and budgeting with that of provincial directors-general (DGs) in their provinces, as well as with the Ministry of Planning and Development Cooperation (MoPDC), through Provincial Development Strategies.

¶16. (U) Many PRTs have financial advisors who work with, train, and mentor technical experts in provincial governors' office. We continue to staff such critically needed positions as part of the PRT surge. Additionally, in coordination with other team members, PRTs are attempting to improve communication between provincial councils and provincial DGs (who have separate budgets for their individual ministries in each province).

¶17. (U) Treasury has funded the training of 50 provincial officials on budget execution with additional training sessions being offered every month for the next three months.

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¶18. (U) The Provincial Reconstruction and Development Committee (PRDC) program, administered by ITAO, encourages good governance best practices at the provincial level by requiring that provincial councils designate a provincial reconstruction committee that can prioritize provincial reconstruction needs and submit prioritized requests in order to be eligible for USG funding.

The Challenges

¶19. (U) The GOI's current challenges in capital provincial budget execution are varied. Operationally, low disbursement rates are attributable to a cumbersome system of fund releases, a lack of transparency in procurement regulations, and the complete dependence on a single national revenue source. Lack of qualified and available contractors and little strategic planning in various sectors add to the complexity. From a governance perspective, a co-related need for better integration of capital budget requests horizontally with provincial DGs and vertically with municipalities below them and the federal government above them is a major impediment to budget execution. USG efforts to date are focused on helping the Iraqis in both the operational and governance area. Additionally, we have identified the need to focus on encouraging adequate operations and maintenance budgets to accompany capital projects.

Way Forward

¶10. (U) The Procurement Assistance Center (PAC), an ITAO-administered program, funds the Ministry of Planning and Development Cooperation in the establishment of PACs focused on clear and efficient procurement and contracting procedures. The PAC program supports both national ministries and provincial governments. PACs established in provinces are

referred to as Provincial Procurement Assistance Teams (PPATs). PPATs have recently been established in a number of provinces. Provinces with the greatest difficulty in budget execution have been given priority.

¶11. (U) USAID is developing an automated provincial capital investment management system to better execute capital budget expenditures and build a groundswell for a national financial management system. The system will allow for easier tracking of funds, transparency, and more efficiency when building the required reports for accounting, project management, and fund requests. The application is on track for a January roll-out. Focus now is on application development and Iraqi buy-in in individual provinces. This effort complements a similar effort by the PAC program to automate procurement requests.

¶12. (U) With the Iraqi 2008 budget process underway, AID/TREAS/OPA are bringing provincial governments together with the MoPDC to help integrate comprehensive provincial development strategies, which include large provincial demands for capital, to the national development strategy as well as the central budget allocation process of other ministries. The goal is to improve communication between provincial and national levels of government with the hope that better communication and de-confliction of provincial and national priority projects will lead to clearly delineated provincial capital projects that can be implemented more rapidly in 2008.

USG Resources

¶13. (U) Currently, the USAID resource plan on provincial budget execution support is:

- 3 public finance advisors at different PRTs,
- 1 senior fiscal advisor in Baghdad,
- 1 senior strategic planner in Baghdad,
- Locally engaged staff in almost every province,
- 7 financial advisors en route,
- 10 person team developing a provincial budget execution automation system

¶14. (U) Currently, the Office of the Treasury Attache resource plan on provincial budget execution is:

- 1 budget advisor leading budget execution training and improving national-local coordination,
- 1 budget officer collecting provincial budget execution data from the MoPDC and Ministry of Finance (MoF)

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¶15. (U) Currently, OPA's resource plan on provincial budget execution is:

- 1 economic advisor collecting and reporting on provincial budget execution data from PRTs as well as helping coordinate AID/Treasury/OPA effort on provincial development strategy integration with the national development strategy.

¶16. (U) Currently, ECON's resource plan on provincial budget execution is:

- 1 reporting officer analyzing and reporting on budget execution across Iraq.

¶17. (U) Currently, ITAO's resource plan on provincial budget execution is:

- 3 American advisors and 24 Iraqi advisors in the PACs project for provinces and PPATs.

¶18. (U) As the table below indicates, the proportion of spending that Iraq allocates to sub-national levels (25 percent) is below that of most western countries. Given negligible sub-national revenue/tax collection and the difficult security situation, the GOI should be credited for making major strides in devolving spending to the provincial level but it is important to note that, with 25 percent of

the total spending on infrastructure through the provincial governments that the percentage of capital spending through sub-national government remains comparatively low.

Country	Percent of Sub-national spending Sector	Percent of Revenue Generated Sub-nationally
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Canada	57	50
United States	40	40
Germany	36	32
Belgium	34	11
Austria	29	21
Iraq (incl. KRG)	25	0.1
Iraq (no KRG)	8	0.1

A New Approach?

¶19. (U) Comment: As an example, U.S. engagement remains successful in Anbar due to engagement at the sub-provincial level (tribal committees). ePRTs are increasingly making the observation that capital project bids are limited to contractors known to the provincial government, usually located in the capital. In the absence of any sort of local revenue generation, the GOI should consider devolving budget spending authority beyond provincial governors (where it has become increasingly concentrated) to municipal authorities.
End Comment.

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